



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/01

Paper 1 Multiple Choice

May/June 2007

1 hour 15 minutes

Additional Materials: Multiple Choice Answer Sheet
 Soft clean eraser
 Soft pencil (type B or HB is recommended)



READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **forty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

Calculators may be used.

This document consists of **11** printed pages and **1** blank page.



- 1 A business bought a computer for the office and paid by cheque.

How will the business record the transaction?

	account to be debited	account to be credited
A	bank	office equipment
B	office equipment	bank
C	bank	purchases
D	purchases	bank

- 2 Harvey buys goods on credit from Janet. The goods are unsuitable and Harvey returns them to Janet.

Which document does Harvey send to Janet?

- A** credit note
- B** debit note
- C** invoice
- D** statement of account

- 3 Powell returns goods purchased on credit from Wilson.

Where will this transaction be entered in Wilson's books?

	book of prime entry	account debited	account credited
A	sales journal	Powell	sales
B	sales journal	sales	Powell
C	sales returns journal	Powell	sales returns
D	sales returns journal	sales returns	Powell

- 4 A business purchases a new motor vehicle on credit.

Which book of prime entry is used to record this transaction?

- A** cash book
- B** general journal
- C** purchases journal
- D** sales journal

- 5 On 15 February Leila sold goods to Yasmin with a list price of \$3600. The goods were subject to a trade discount of 15 % and a cash discount of 5 % for settlement within 28 days. Yasmin paid on 20 May.

How much did Leila receive for the goods?

- A** \$2880 **B** \$2907 **C** \$3060 **D** \$3600

- 6 On 1 May 2007 the bank columns of a cash book showed an overdraft of \$1860. On 2 May the following transactions took place.

	\$
Paid cash into the bank	490
Bought stationery and paid by cheque	20

What is the bank balance after these transactions?

- A** \$1390 credit
B \$1390 debit
C \$2330 credit
D \$2330 debit
- 7 Which will appear on a bank statement?
- A** bad debts written off
B cheques issued but not yet presented for payment
C credit transfers received from debtors
D payments into the bank not yet credited
- 8 Why is the general journal used to correct errors in the ledger?
- A** to avoid making corrections in the ledger
B to complete the double entry
C to have a written explanation of the ledger entries
D to reduce mistakes in profit calculation
- 9 Which is a debit balance?
- A** accrual
B asset
C liability
D revenue

10 In Smith's books the ledger account of Brown shows a credit balance of \$1200.

What does this mean?

- A Brown bought goods, \$1200, from Smith.
- B Brown owes Smith \$1200.
- C Smith has paid \$1200 to Brown.
- D Smith owes Brown \$1200.

11 What is the purpose of a trial balance?

- A to calculate a provisional net profit for a financial year
- B to confirm that the cash book balance agrees with the bank statement balance
- C to confirm that the total debit balances agree with the total credit balances
- D to show the assets and liabilities of a business at a certain date

12 Which is a compensating error?

- A cheque received from J. Wilks is debited in the account of J. Wilson
- B debit and credit for the correct amount are entered on the wrong sides of both accounts
- C purchase of a motor vehicle on credit is debited in the motor expenses account
- D sales account and purchases account are both undercast by the same amount

13 Which is capital income?

- A purchase of machinery by cheque
- B rent received in cash
- C sale of machinery for cash
- D stationery bought by cheque

14 A motor vehicle cost \$8000 and the price included \$36 for petrol. The total payment of \$8000 was debited in the motor vehicles account.

What is the effect of the error on the net profit and the fixed assets in the balance sheet?

	net profit	\$	fixed assets	\$
A	overstated	36	overstated	36
B	overstated	36	understated	36
C	understated	36	overstated	36
D	understated	36	understated	36

15 How is the annual depreciation charge recorded?

	account to be debited	account to be credited
A	fixed asset	provision for depreciation
B	provision for depreciation	fixed asset
C	profit and loss	provision for depreciation
D	provision for depreciation	profit and loss

16 A machine was purchased for \$100 000 and depreciated by 20 % per annum using the straight line method. Three years later it was sold for \$25 000.

What is the profit or loss on sale?

- A** \$15 000 loss
- B** \$25 000 profit
- C** \$26 000 loss
- D** \$35 000 profit

17 A trader's financial year ends on 31 December. He purchased premises on 1 July 2005.

The insurance premium payable on the premises was:

1 July 2005 – 30 June 2006	\$1800
1 July 2006 – 30 June 2007	\$2000

How much was transferred from the insurance on premises account to the profit and loss account for the year ended 31 December 2006?

- A** \$1800
- B** \$1900
- C** \$2000
- D** \$2900

18 At the end of the financial year Ryan owed \$200 for motor expenses.

How will this appear in Ryan's ledger and balance sheet?

	motor expenses account in the ledger	balance sheet
A	credit balance brought down	current asset
B	credit balance brought down	current liability
C	debit balance brought down	current asset
D	debit balance brought down	current liability

- 19 There is a balance in the suspense account. The book-keeper discovers purchases were overcast by \$1000.

What entry is required to correct this error?

	account to be debited	account to be credited
A	purchases	suspense
B	purchases returns	suspense
C	suspense	purchases
D	suspense	purchases returns

- 20 The draft final accounts show a net profit of \$12 000. Sales have been overcast by \$600.

What is the correct net profit?

- A** \$10 800 **B** \$11 400 **C** \$12 600 **D** \$13 200
- 21 Which appears in a sales ledger control account?
- A** cash sales
B discount received
C refund from supplier
D returns inward

- 22 A trader provides the following information.

	\$
cost of sales	70 000
expenses	8 000
net profit	14 000

What are the sales?

- A** \$48 000 **B** \$62 000 **C** \$84 000 **D** \$92 000

23 Beth provides the following information.

	1 January	31 December
Net assets	\$28 000	\$24 000

The drawings during the year amounted to \$3000.

What is Beth's net profit or loss for the year?

- A \$1000 loss
 - B \$1000 profit
 - C \$7000 loss
 - D \$7000 profit
- 24 What is a current asset of a sports goods shop?
- A bank overdraft
 - B fixtures and fittings
 - C shop premises
 - D stock of footballs
- 25 How is working capital calculated?
- A current assets less current liabilities
 - B fixed assets less current assets
 - C total assets less current liabilities
 - D total assets less total liabilities
- 26 On 30 September 2006 a business has a stock of goods for re-sale which cost \$23 000. This includes goods costing \$1000 which are damaged and can only be sold for \$700, after paying re-packaging costs of \$50.
- At what value should stock be shown in the balance sheet at 30 September 2006?
- A \$22 000
 - B \$22 250
 - C \$22 650
 - D \$22 700

- 27 Lee and Mark are sole traders. They decide to amalgamate their businesses and agree to share profits and losses equally. Lee's goodwill is valued at \$3000 and Mark's at \$1000.

How is goodwill recorded in the books of the new partnership?

	account to be debited	\$	account to be credited	\$
A	capital Lee capital Mark	3 000 1 000	goodwill	4 000
B	goodwill	4 000	capital Lee capital Mark	3 000 1 000
C	capital Lee capital Mark	2 000 2 000	goodwill	4 000
D	goodwill	4 000	capital Lee capital Mark	2 000 2 000

- 28 The owner of a business takes goods for her own use.

How will she record this in the ledger?

	account to be debited	account to be credited
A	capital	drawings
B	capital	sales
C	drawings	purchases
D	drawings	stock

- 29 What is the effect on the final accounts of providing for a wages accrual?

	net profit	current liabilities
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

- 30 Why does a partnership prepare an appropriation account?

- A** to share gross profit between partners
- B** to share net profit between partners
- C** to show partners' capitals
- D** to show partners' drawings

31 Mariam and Noora are in partnership.

The net profit for the year is \$25 255. The total of the drawings made by the partners was \$6300 on which they are charged 5 % interest.

How much profit is available to be shared between them?

- A** \$23 992 **B** \$24 940 **C** \$25 570 **D** \$26 518

32 What is the purpose of a receipts and payments account?

- A** to calculate net profit for the period
B to calculate profit from revenue-generating activities
C to show the cash transactions for the period
D to show the surplus of income over expenditure

33 A sports club's receipts and payments account for the year ended 30 April 2007 included the following.

subscriptions received:	\$
for the year ended 30 April 2007	6000
for the year ending 30 April 2008	400

On 30 April 2007 subscriptions due but unpaid were \$200.

What will be the amount shown for subscriptions in the club's income and expenditure account for the year ended 30 April 2007?

- A** \$5600 **B** \$5800 **C** \$6000 **D** \$6200

34 A trader does not keep a full set of accounting records.

How is net profit for the year calculated?

- A** closing capital less opening capital less capital introduced plus drawings
B closing capital less opening capital less drawings
C closing capital less opening capital plus capital introduced
D closing capital less opening capital plus capital introduced less drawings

35 A trader provides the following information.

Cost of goods sold	\$40 000
Gross profit margin	20 %

What are the sales?

- A** \$8000 **B** \$10 000 **C** \$48 000 **D** \$50 000

36 Which item appears in the appropriation account of a limited company?

- A** debenture interest paid
B directors' salaries
C dividends paid
D investment income received

37 A manufacturer provides the following information.

	\$
factory wages	11 000
carriage on raw materials	2 700
machine repairs	3 420
supervisor's wages	6 000
raw materials used	19 700

What is the prime cost of manufacturing?

- A** \$33 400 **B** \$36 700 **C** \$39 400 **D** \$42 820

38 What is the formula for calculating the rate of stock turnover during a trading period?

- A** $\frac{\text{average stock at cost price}}{\text{cost of goods sold}}$
B $\frac{\text{average stock at selling price}}{\text{cost of goods sold}}$
C $\frac{\text{cost of goods sold}}{\text{average stock at cost price}}$
D $\frac{\text{cost of goods sold}}{\text{average stock at selling price}}$

39 An analysis of a company's accounts over two years has produced the following ratios.

	year 1	year 2
gross profit/sales	32 %	32 %
net profit/sales	16 %	9 %

There have been no changes in selling prices or quantity of goods sold during the two years.

What happened in year 2?

- A cost of sales decreased
 - B cost of sales increased
 - C expenses decreased
 - D expenses increased
- 40 A business decides to record stocks of stationery as an asset only if the value is over \$100.

Which accounting principle is being applied?

- A accounting entity
- B historical cost
- C matching
- D materiality

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